

Marketing Fundamentals
Analysis and Evaluation – Starbucks



Abstract

This report discusses the impact of the ongoing Covid-19 pandemic for Starbucks. Covid-19 pandemic was affecting hospitality businesses and all marketing strategies. In this report, I will use all major methods to analyse the market. The PESTLE analysis will show the impact of all forces that surround the company. Porter's 5 forces will give a better understanding of the whole industry. SWOT analysis is showing the strengths, weaknesses, opportunities and threats of Starbucks. The report will include the marketing mix adapted to the pandemic and what was the impact of covid-19 on all stakeholders.

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1. Introduction

Starbucks Corporation was started by Gordon Bowker, Jerry Baldwin and Zev Siegl with the 1st opened a coffee shop in Seattle in 1971 (Starbucks Channel, 2015). Later in 1982, Howard Shultz joined the company which will help to expand the company first in America and then move to Japan in 1996, Europe in 1998 and China in 1999 (Starbucks Corporation, 2021). In 50 years, the company grew from 1 store to nowadays at 33 833 stores (Starbucks Corporation, 2021).

Starbucks mission “to inspire and nurture the human spirit – one person, one cup, and one neighbourhood at a time” involve that they are not just serving coffee, they are engaging customers at a different level of emotion (Starbucks Stories, 2015).

2. Marketing process

The marketing process is a five steps process that includes the analyse of market opportunities, marketplace analyses, developing the marketing mix and managing the marketing tools with the customers being the centre of the process (Kotler, et al., 2020).

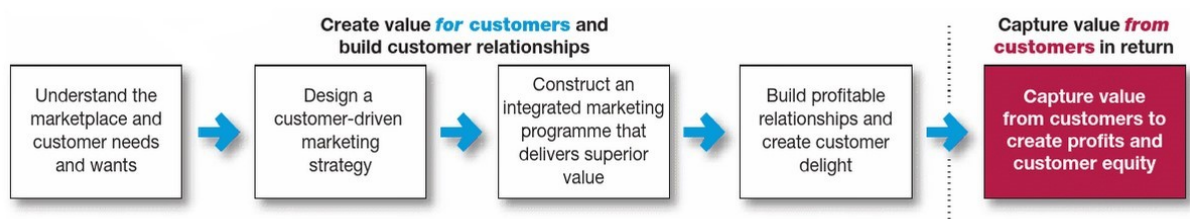


Figure 1 The marketing process (Kotler, et al., 2020)

PESTLE Analysis

PESTLE analysis is an important tool for a company, new or existing, to understand the macro-environment that shape the market. Covid-19 pandemic forced all forces to adapt to the new way.

Political factors:

- After Brexit, the United Kingdom is negotiated new trade agreements. Leaving Euro Union affected free import and export of goods, putting in difficulty the coffee shops.
- The trust of the English people in the political forces was increasing at the first lockdown (Davies, et al., 2021), meaning that people accepted the Covid-19 measures.

Economic factors:

- Brexit had an impact on how all trades are running, the latest statistics show that exports suffered a drop in 2020 to 27.37% from the Gross Domestic Product (GDP) from 31.08% in 2019. As well the imports dropped from 32.32% from GDP in 2019 to 27.72% in 2020 (TheGlobalEconomy.com, 2021). Due to this some shops suffered shortages and offered limited products to customers.
- According to the Office for National Statistics (2020) food industry had the biggest increase in labour costs per hour with 48.8% from July to September 2020, which shows that the Covid-19 pandemic had a negative impact.

Social factors:

- The way of life with working longer hours is making the coffee a part of the normal day at work, at the office or at home.
- 86% of adults from the United Kingdom are according to a recent poll, coffee lovers. On average they are consuming 26 coffees during a week (Hughes, 2021).
- When is consumed with moderation, coffee is considered a healthy drink (Harvard T.H. Chan School of Public Health, 2021).

Technological factors:

- The use of new and innovative technology in the Covid-19 context will increase sales and will improve the services at the coffee shops.
- Due to the pandemic, the industry has the chance to improve online services improving mobile applications and offer a click and collect services and deliveries through partners.
- 80% of adults in the United Kingdom has a smartphone and 81% are looking to find goods or services (Strugar, 2021).

Legislation

- The legal system in the United Kingdom is well organised, clear and efficient to adapt to changes.
- The laws which affect the industry are created and amended thinking to help the investors.
- Furlough, Eat Out to Help Out and the VAT reduction schemes were helpful for the industry to the early Covid-19 Pandemic (Gov.uk, 2020).
- Index of Economic Freedom places the United Kingdom number 3 in Europe and 7 in the world with an overall score of 78.4 (The Heritage Foundation, 2021).

Environmental

- The United Kingdom has a determined climate change commitment that is backed by the law to reduce emissions by 78% until 2035 compared to 1990 and net zero by 2050 (Gov.uk, 2021).
- The United Kingdom laws are adapted to follow the recommendation from Climate Change Committee.

Porter's five forces model

This model introduced by Michael Porter in 1979 remains valid for the 21st century (Johnson, 2014).

The five forces for this model are the threat of new entrants, the threat of substitutes, the bargaining power of customers, the bargaining power of suppliers and competitive rivalry.

Even though is expected that the coffee shop industry to drop by -45.7% in 2021 the market size remains high at £3.7 billion (IBIS World, 2021).

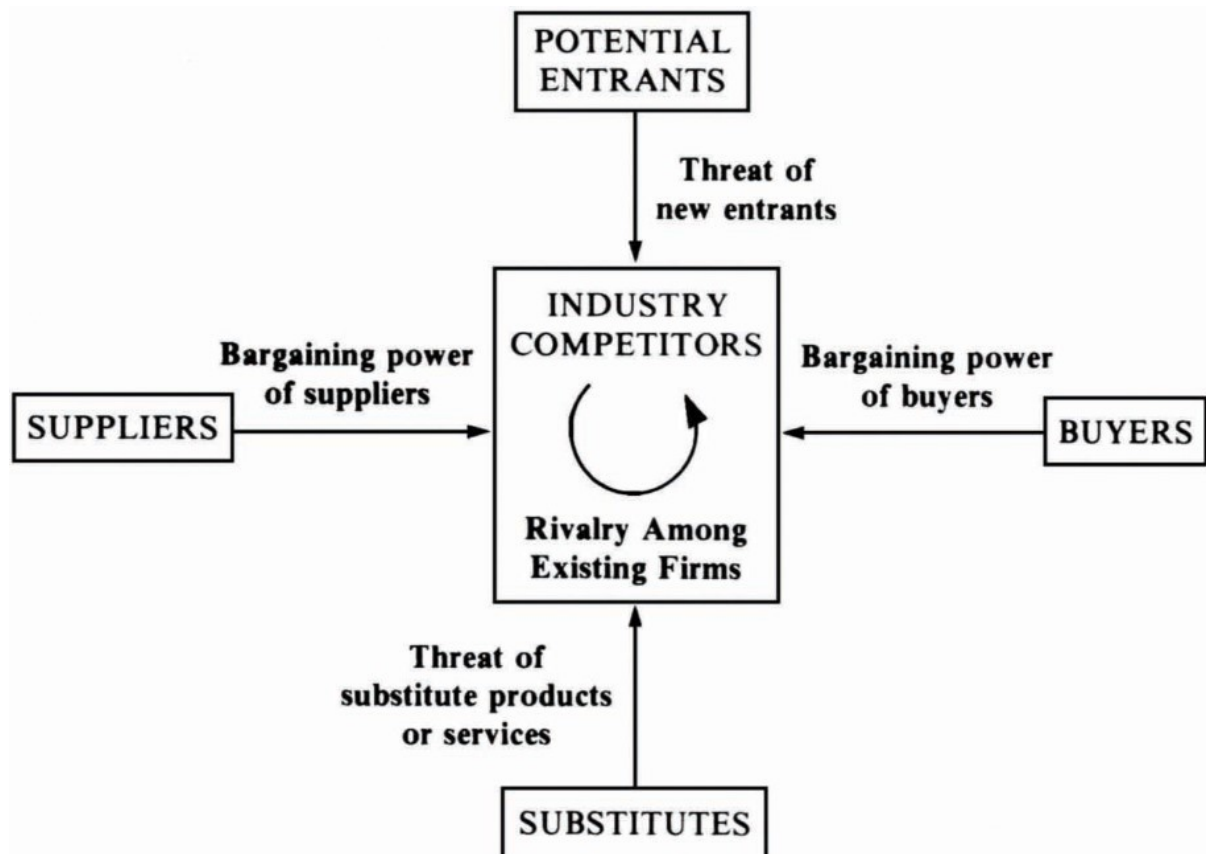


Figure 2 Porter's five forces (Porter, 1988)

Threat of new entrants (moderate force)

- There is a moderate threat of new entrants in the industry mainly because the walls are not too high to discourage other companies.
- The initial investments are not too high.

Threat of substitutes (high force)

- In the market, there are many substitutes for coffee: tea, water, energy drinks, etc.
- Also, the bars and pubs can offer a substitute with non or alcoholic beverages.
- All industry consumers can brew their own coffee with coffee machines or use instant coffee
- Starbucks as one of the industry leaders is trying to counter this threat by retailing their own brand coffee makers, coffee packs that are sold direct or through partners.

Bargaining power of customers (high force)

- The cost of switching is low and a large substitute available has a high impact on Starbucks.
- Consumers have many options to choose, from international brands to local coffee shops.

Bargaining power of suppliers (low force)

- Due to the size of the company, Starbucks is buying 3% of the world's coffee, has the influence to take advantage of the suppliers, but is still following the Coffee and Farmer Equity (C.A.F.E.) Practices (Starbucks Corporation, 2021).
- Also, it is a high variety of suppliers which makes Starbucks to easily change the supplier if needed.

Competitive rivalry (strong force)

- There is a large number of companies that operate in the industry which intensifies the competitive rivalry.
- The low switching cost of customers to shift from a provider to another makes this market competition intense.

SWOT Analysis

The SWOT is analysing the current situation of Starbucks in the United Kingdom by looking at the strengths, weaknesses, opportunities and threats.

Strengths

- ✓ The stores are well located, in places with high traffic, high visibility, close for consumer convenience.
- ✓ Coffee shops in the city centre, retail centres, motorway locations, office buildings, etc.
- ✓ Starbucks is offering high quality products.
- ✓ A large variety of products: brewed coffee, hot and cold tea, iced and cold brewed coffee, water, drinks with a fruit base, etc.
- ✓ Starbucks brand is strong mainly to the focus on detail on the customer experience that happened from the 1st store.

Weakness

- ✓ Due to the pricing strategy, the products will be for some customers expensive.
- ✓ During peak hours, the coffee shops form long lines, affecting the experience.
- ✓ There is a wide range of substitutes for Starbucks products.

Opportunities

- ✓ By focusing on enhancing the delivery systems during the Covid-19 pandemic to reach more customers will increase the brand recognition and sales.

Threats

- ✓ The customer's preference can change due to tastes, trends or dietary habits.
- ✓ The move of customers to healthy products
- ✓ Coronavirus pandemic is having a negative impact on the global economy. This can be due to a result in massive human loss, all the required protection actions put in place by the government: lockdowns, quarantines and social distancing to contain the spread of the virus.
- ✓ The Covid-19 decrease the buying power of the consumers.

3. Market segmentation

Segmentation

According to Kotler and Keller, the segmentation is splitting the market into different fragments which are grouping the consumers that have similar desires or behaviours (Kotler & Keller, 2016). Starbucks segmentation takes into consideration demographic, geographical and psychographic variables.

Starbucks is having a wide range of products to satisfy all consumers groups and regarding the geographic segmentation, since coffee shops are distributed around the world, they adapted the offer to please the local communities.

Targeting

As Kotler and Keller were saying the targeting need to analyse all market segments on which the business has any interest and go forward with one or more segments that will give the best results in terms of profitability (Kotler & Keller, 2016).

By selling high quality, Starbucks is targeting coffee enthusiasts of all ages with high income that will pay for a better product.

Positioning

Starbucks positioning is based on customers, clearly seen from the mission “one person, one cup and one neighbourhood at the time” (Starbucks Stories, 2015). This is seen even in how the layout of the stores is made with great design, the music, the position of the stores in premium locations.

4. Marketing strategy

Marketing strategy is the company way to focus the resources to achieve better sales and competitive advantages being centred on customer satisfaction (Bishop, 2012). The Starbucks marketing strategy combines a few elements that make this company to be successful: product development, promotion, pricing, distribution and public relationship.

The Ansoff strategy matrix is a simple way but efficient to capture the different strategic points (Spender, 2014, p. 75).

Market penetration

Market penetration strategy is the strongest point in the marketing strategy of Starbucks. All company's products are well known and they are only trying to increase the awareness of the brand.

Market development

Starbucks main competitor, Costa, has around 2681 selling points across the United Kingdom (S. Lock, 2021) which make them to adapt the selling channels by opening licensed coffee shops or developing the delivery systems.

Product development

The range of products of Starbucks is wide but always is room for more. Starbucks is coming with seasonal products, for the winter season was adding to the menu the Fudge Brownie Hot Chocolate and Caramel Waffle latte (Starbucks UK, 2021).

Diversification

Starbucks has quite a diverse range of products that have in common coffee. It not only sells drinks, food, serveware merchandise in the store, but they are also thinking about home use with instant and whole bean range.

5. Marketing mix

The marketing mix is a set of strategic marketing tools that a company use to harvest the best response from the target market (Kotler, et al., 2020). Along with the 4 P's – product, price, place, promotion – Booms and Bitner (1981) added 3 P's – people, process, physical evidence – to have a more detailed marketing mix for services.

Product

Starbucks has a large range of products that have in the centre the main element, the coffee. It sells espresso drinks, hot and brewed coffee, hot and cold tea, iced coffee, baked products, breakfast, lunch, fresh fruits, smoothies and other bottled drinks. Also, for home use, it offers capsules and instant coffee. Being a well-known brand is using this to offer merchandise: mugs, cups, french press and reusable straws.

As the Starbucks annual report shows the main products where the income is coming is with 74% from beverages and 21% from food products (Starbucks Corporation, 2021).

Price

The price is an important element of the marketing mix, this element generates revenue and gives support to all Starbucks activities (place, promotion, product improvement, etc.). The average price for the main product, coffee, is in the United Kingdom around £2.90 (Binsted, 2021). Is well known that Starbucks is selling premium products and from here is coming to the premium pricing strategy.

Place

Starbucks has worldwide a total of 33833 stores in 84 markets. 49% are operating under a licence agreement and 51% are owned by the company. In the United Kingdom, the company is present with 791 stores under licence and 298 owned. (Starbucks Corporation, 2021).

The layout of the stores has adapted due to the Covid-19 pandemic offering the same experience to all customers. The design, the music along the premium location of the stores make Starbucks coffee shops a place that attracts people.

The company is using various channels to distribute its products to customers. The traditional stores are completed by online application, Starbucks Rewards app, delivery through local partners – Uber Eats, Just Eat, Deliveroo – and leading supermarkets – Morrisons, Asda, Sainsbury's (Starbucks UK, 2021).

Promotion

Promotion is just how the company is manipulating the customers to make a purchase by providing all the information that is needed (Bishop, 2012). The promotion supports the business to increase its retail experience and offer customers suitable options to appreciate Starbucks anywhere.

Starbucks is present around the world and the promotion strategy is adapted to each country, but the promotion is mostly happening through word of mouth, social media, promotional sales and public relations.

To create loyalty among the followers, Starbucks use its own mobile application which gives rewards depending on the spending. Every £1 means 3 stars in the application and when you achieve a total of 150 stars you receive a free drink, furthermore when you accumulate 450 stars, as a gold member, you get extras and a free drink for each birthday (Starbucks UK, 2021).

People

All Starbucks employees are considered partners and they have worldwide around 38300 partners (Starbucks Corporation, 2021). All partners of Starbucks are well trained and taught to deal with issues in a mode that each customer is enjoying the Starbucks experience.

The partners are at the core of Starbucks success and they are also receiving a few benefits: perks at work, private insurance, life insurance, partner card for discounts, 4% of the annual salary to be used on different benefits.

Starbucks mission "to inspire and nurture the human spirit – one person, one cup and one neighbourhood at a time" shows how important are his partners and customers (Starbucks Stories, 2015).

Process

From the opening of the 1st store in 1971, Starbucks is offering what the consumer needs, premium coffee (Starbucks Channel, 2021). All coffee shops around the world are offering the same services. Trough out the basic barista training is the guarantee that all recipes are followed.

A Starbucks store can be often busy and to keep the same Starbucks experience all customers need to be served in a well-organized way. Customers will place and pay orders at the counter collecting the order from the end of the counter when they are called.

Due to the government regulations in regard to the Covid-19 pandemic, Starbucks stores adapted limiting the spread.

Physical evidence

Starbucks is offering a great layout throughout its stores which if well designed, functional and well cleaned. Aside from the design, the ambience of the stores is also physical evidence, even if it is not tangible. All coffee shops are playing music and they are offering the same playlist on Spotify for coffee lovers.

The logo of the company is well placed at the store entrance and displayed on all staff uniforms, equipment and cups.

The physical evidence has an important role in the Starbucks marketing mix because it is the way how the company's products are introduced to the consumers.

6. Stakeholders

In 1984, Edward R. Freeman defines a stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46).

Starbucks' key stakeholders are its customers, employees, shareholders, board of directors, investors, suppliers and government.

Internal

The internal stakeholders of Starbucks are all the individuals or groups that can influence the success or failure of the business. The key internal stakeholders are its employees, which are considered partners because they are the front line of the business and they are influencing the success of the company. They are trained and stimulated to learn about coffee. The board of directors influence where the company is going and are helping to increase brand awareness worldwide.

The success of the company is related to how well all internal stakeholders are treated.

External

The external stakeholders of Starbucks are the customers, suppliers, creditors, investors and government.

The key stakeholders that make the Starbucks brand so popular are the customers. The internal stakeholders have a positive impact on the customers providing the Starbucks experience.

Also, Starbucks has a strong relationship with its suppliers and they are selected following the Coffee and Farmers Equity practices (Starbucks Corporation, 2021).

In the actual Covid-19 context, the government has an important role in how Starbucks business is running. All measures to stop the spread of the virus has impacted the revenues, during the lockdown the stores was closed, the social distancing reduce the number of customers in stores and enhanced cleaning measures increase the expenses.

All external stakeholders will shape the brand and financial wealth of the company.

7. Conclusion

Even in the actual context of the Covid-19 pandemic, Starbucks is a company that continued to grow. Starbucks has a strong line of products and all small changes in the range will increase brand awareness.

Starbucks is a good illustration of a company that has a strong marketing strategy that is developed around their customers, offering the Starbucks experience. All components of the marketing mix have a big impact on the success of the company, the high quality products will retain the customers even with the premium price strategy. Starbucks is not selling only beverages, the image of the store, the atmosphere, the warm welcome of the partners and the location are part of the success.

It is really important for Starbucks to continue the brand marketing strategies to remain connected with the audience and gain customers awareness and loyalty.

8. Recommendation

There are a few recommendations that the company should follow:

- To take into consideration the consumer's preferences relating to the changes in their tastes, dietary habits and trends.
- The company must anticipate the appeal of consumers to a healthier way of life.
- Pick up service outside the store for those who order online to avoid any contact.
- In the actual Covid-19 context to develop the online channels to approach a bigger market.

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